

FISCAL NOTE
SB 34
SECOND EXTRAORDINARY SESSION

November 9, 1999

SUMMARY OF BILL: Provides various changes to Tennessee's tax structure as follows:

1. Reduces the general sales tax from 6% to 3.75% except for sales tax on hotels, motels, amusements, rental cars, tobacco and alcohol products. (Effective 3-1-00)
2. Repeals the state sales tax on grocery food. (Effective 3-1-00)
3. Provides for a tax of 3.75% on adjusted gross income with exemption levels for various taxpayers. (Effective 1-1-00) Employers may begin withholding and remitting the tax after January 1, 2000 but no later than the first payroll period which ends after March 31, 2000 with amounts being withheld to spread the withholding equally over all remaining payroll periods of the calendar year.
4. Repeals the Hall Income Tax. (Effective 1-1-00)
5. Provides for a credit against the Professional Privilege Tax. Effective (1-1-00)
6. Provides for the single item limitation on local sales tax to apply only to motor vehicles, boats and airplanes. (Effective 3-1-00)

ESTIMATED FISCAL IMPACT:

Increase State Revenues - \$572,800,000 First Full Year
\$625,420,000 FY 99-00

Increase State Expenditures - Dept of Revenue:
\$11,725,600 FY 99-00 (7 mos.)
\$28,098,400 FY 00-01

Increase Local Govt. Revenues - Exceeds \$20,000,000

	<u>1st Full Year</u>	<u>FY99-00</u>
<u>State Revenues Increased</u>		
Flat tax (net of exemptions & deductions)	\$2,544,000,000	\$1,221,120,000

Less:State Revenues Reduced

Repeal state sales tax on food	258,000,000	86,000,000
Reduction in general sales tax rate	1,529,200,000	509,700,000
Credit for Professional Privilege Tax	15,000,000	
Repeal Hall Income Tax	<u>169,000,000</u>	<u> </u>
Subtotal Revenues Reduced	<u>1,971,200,000</u>	<u>595,700,000</u>
Net Increase in State Revenues	\$572,800,000	\$625,420,000

Assumptions for Changes in State Revenues:

1. **Flat Tax** - The first full year reflects a rate of 3.75% on adjusted gross income, exemption levels as outlined in the bill, 1998 income data (adjusted), capital gains taxed at 50% and a 10% compliance factor. The amount estimated for FY 99-00 assumes collections of 48% of the first full year since employers will be allowed to begin withholding at any time from 1/1/00 to the first payroll after 3/31/00.

2. Sales Tax

- Repeal of sales tax on food - The estimate for the first full year represents the value of the grocery rate reduction remaining after the reduction in the general sales tax rate from 6% to 3.75%. The estimate for FY 99-00 represents four months collection (April-July) since the effective date for this provision is 3-1-00.
- Reduction in sales tax rate on all but selected items - The estimate for the first full year represents a 2.25% reduction in items outlined in the bill and considers those items already at special tax rates that would not be affected. The estimate for FY 99-00 represents four months collection (April-July) since the effective date for this provision is 3-1-00.

3. **Hall Income Tax**- This figure represents estimated collections for FY00-01 and does not reflect any decreases for the current fiscal year due to the year in which such taxes are due.

4. **Credit Against Professional Tax** - The first full year estimate represents the credit received by in-state professionals. It is estimated that the current year will not be affected, since the credit will be realized on tax returns filed on or after April 15, 2001.

5. The net increase in state revenues does not consider funds which would be provided to the Rainy Day Fund by passage of this bill since existing statutes require 10% of the estimated growth in revenues to be allocated to such fund.

Assumptions for State Expenditures:

1. The estimate for FY99-00 represents funding for seven months with \$8,964,000 for recurring items and \$2,761,600 for computers, workstations, printers, furniture, training, and other one-time type expenses. It is estimated that 291 additional positions will be added in various divisions throughout the Department of Revenue to carry out provisions of the bill.
2. The estimate for FY00-01 is an amount of approximately \$27,000,000 for recurring costs and \$1,098,400 for one-time expenses not incurred during FY99-00. An additional 139 full-time positions throughout the department are estimated to be needed and 190 part-time positions in the Processing Division to assist in tax returns filed after January 1, 2001.
3. The estimated recurring expenditures for FY00-01 represent an increase in recurring needs of \$18,036,000 over FY99-00, since the program will be fully functional at some point during the fiscal year beginning July 1, 2000.
4. The additional positions will be established as needed at various times during FY99-00 and FY00-01; therefore, recurring expenses will not be fully realized until FY01-02 and are estimated to be approximately \$30,000,000 utilizing 430 full-time positions and 190 part-time positions.

A summary of expenditures is shown below:

	<u>FY99-00</u>	<u>FY00-01</u>	<u>FY01-02 & thereafter</u>
Recurring	\$8,964,000	\$27,000,000	\$30,000,000
One-Time	<u>2,761,600</u>	<u>1,098,400</u>	
Total	\$11,725,600	\$28,098,400	\$30,000,000

Local Government Revenues:

Provisions of the bill removing the single item limitation on local sales tax except for motor vehicles, boats and airplanes is estimated to provide additional revenues to local governments exceeding \$20,000,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James A. Davenport". The signature is written in a cursive, flowing style with a prominent initial "J".

James A. Davenport, Executive Director